

**Statement of
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UPS
Before the
Subcommittee on Railroads
Committee on Transportation and Infrastructure
U.S. House of Representatives
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Thank you, Mr. Chairman. At UPS, we believe the future of the nation's rail system is at the very heart of our nation's ability to compete globally, and right now, from our experience, there is much that needs to be done to ensure that future ability.

This is not a challenge to any one stakeholder – not the companies that run the railroads, not state and local governments, not the federal government, not the users of the rail system.

Rather, there is a collective need. And there must be a collective remedy. This is a fundamental national issue. As a nation, we recognize the importance of first-class highway and aviation infrastructures. Our rail network must be placed in that same category.

The railroads were drivers of prosperity and growth in the last two centuries and we believe they can and must continue to be one of the cornerstones of our nation's economic well-being. Today, commerce and the demand for efficient transport is global. U.S. companies remain leaders in innovation and our workers are as capable as any. Our nation's infrastructure, however, has failed to keep pace with the demands of the 21st Century, and railroad infrastructure is an integral and necessary part of a system that increasingly must be viewed as a single, all-encompassing network. Public funding mechanisms have been critical in maintaining our aviation and highway infrastructure network; the rail network should be no different. If any

part of that network fails to keep pace, the entire system suffers along with our ability to compete.

That explains, in part, why UPS, a company perhaps best known for delivering items to your door in brown package delivery vehicles, is interested in the railroads.

UPS remains among the largest corporate customers of Class I Railroads in the United States today and we and our customers – businesses large and small, homeowners and families, all across America – have a vital interest in the efficient operation, and future direction, of the North American railroad industry. In 2005, we directly spent more than \$750 million on freight rail transportation, and controlled (through our supply chain subsidiary) another \$800 million in customers' railroad transportation spend. We move thousands of trailers, filled with packages, on flat rail cars daily. We have been incorporating rail transportation into our network since the 1960s, and it is important to remember that every trailer we put on the railroads represents one less trailer moving on the highways.

UPS and our customers depend on rail service as a vital part of our worldwide intermodal transportation network, which on a daily basis delivers more than 14.8 million packages to 7.9 million customers. It is estimated that UPS delivers more than 6% of U.S. Gross Domestic Product and 2 percent of global GDP each and every day.

In addition, in recent years UPS has actively developed logistics and global supply chain management solutions for customers around the world. As UPS service offerings reflect customer demand for international transportation solutions, a healthy and vibrant U.S. railroad industry has become a critical partner in meeting the needs of our customers not just in the United States, but throughout the world.

Allow me to give you an example of how our system interacts with that of the railroads. A national hair products manufacturer uses UPS for its' nationwide shipping needs. Their Southern California distribution location supplies products to much of their West Coast retail beauty salon customers. UPS uses the rail network to feed these packages to UPS hub locations in the Pacific Northwest. This customer has had repeated service problems and delays in this region and recently stated, "Taking a week into Oregon and Washington (from California) simply does not work. Other carriers get to these locations in 2 days via truck. At this rate, we might be forced to make changes. Certainly I see excuses, but no solution being suggested by UPS."

Unfortunately, this scenario is all too common on today's rail network. When our customer confronts us with this feedback, we are left with few alternatives. UPS wants the railroads to succeed and to continue our mutually rewarding transportation partnership. But the bleak current service picture forces us to be responsive to our customers' needs and find an alternative transportation mode. Our marketplace dictates a quick and appropriate response. Along the same vein, we wish the railroads had the ability, and desire, to respond to our needs.

In the early years following deregulation, the railroads adapted to a changing environment and UPS and its' customers realized service and performance enhancements. However, recent trends have diminished performance and constrained intermodal operations, underscoring the need to eliminate the Class I "urge to merge" mentality. Let me be clear: UPS unequivocally opposes any future Class I rail mergers.

Whether as a result of 1990's rail mergers or other reasons, there has been little new rail capacity. Regrettably, the railroads have been unable to make adequate capital investments, technological enhancements and innovative solutions in responding to new market conditions.

I stress the word adequate. It's not as if the railroads have not been investing – as you will hear today from industry representatives. Rail performance clearly underscores, however, that it simply has not been enough. Spot investment – a few miles of track here, fixing a bottleneck there – will not make our rail system more efficient and the national economy will suffer for it. As an aside, the proposed Railroad Infrastructure Tax Incentive legislation is NOT sufficient. We need to devise a more comprehensive solution.

Nothing illustrates the current challenges we face more than time in transit, which remains a significant issue for railroad customers like UPS. Since the passage of the Staggers Act, the efficiency and speed of our nation's transportation system generally has increased. The lone exception, however, is railroad velocity. I'd ask you to consider what other mode of transportation in the United States moves slower than it did 30 years ago? And demands on an already overburdened rail network are increasing.

UPS has broad experience in aviation, trucking and maritime transportation, and we have seen an increase in speed and a corresponding decrease in transit times across each of these modes. Given today's emphasis on streamlined supply chains and speed to market, the railroad time in transit picture puts at risk our nation's worldwide economic competitiveness.

This is underscored by the fact that a month ago UPS initiated a new "Fast Lane" service for truck transportation, between key city pairs throughout the country, to meet the demand for time sensitive shipments that previously had been sent over the rails. That's correct, we purposefully moved package volume off the rails and on to the congested highway system. Why did we do this at a time of record fuel costs and increasing highway congestion? The answer is simple: to meet our competition; railroads are unfortunately not making the grade.

Another area of future railroad focus should be a commitment to technological innovation. Railroads generally have foregone developing Positive Train Control technology – a system like the nationwide Air Traffic Control System except for railroads – and, with a couple of exceptions such as the proposed Norfolk Southern and Kansas City Southern Meridian Speedway project, have not invested in innovative concepts and partnerships to provide better service. Both the National Transportation Safety Board and the Transportation Research Board have found that stimulating development of technologies such as Positive Train Control could produce tremendous benefits to the rail system.

In recent years, UPS has invested billions of dollars on technology, much of which is directly related to imbedding information in each individual package. Today we can provide our customers a wealth of information regarding the status and time in transit of a \$6.00 single package or an ocean bound cargo container. In contrast, the railroads lack the capacity to give their customers information about trainloads of freight.

At this critical juncture, when time-sensitive information is essential to national and global commerce and to our nation's security, why should we accept not knowing many of the most basic details about rail movements on major rail arteries?

UPS understands and recognizes the capital intensive nature of the rail industry and is sensitive to the short-term vision of equity markets. The railroad cost of capital dynamics are indeed challenging and public policy initiatives addressing infrastructure improvements, adding capacity, improving rail service, and enhancing technology, should be promoted. But the railroads must carry their full burden and the recent extraordinary financial performance of virtually all Class I railroads illustrates that the capacity to significantly increase investment for the future unquestionably exists.

As noted earlier, however, this is not only an issue for the nation's railroads. Looking forward, one concept that should be explored is the notion of establishing a public-private partnership to help fund railroad infrastructure improvement projects. I would ask the Committee to consider the following: the nation's highway system has a Highway Trust Fund to support and maintain a safe and efficient federal highway system; the nation's airports have an Aviation Trust Fund to support, maintain and enhance airport infrastructure and provide necessary capacity. If the existence of these two transportation trust funds are deemed to be in the public interest, why not a Railroad Trust Fund, or a similar user-funded mechanism?

We need a public-private investment plan to address the serious challenges facing the industry. Wouldn't improving railroad capacity, safety, infrastructure and technology be in the public interest? Yet, the user-funded trust concept has not gained traction, while service levels diminish and rates continue to rise. Instead of working on capacity and technology solutions, the railroads seem more interested in resurrecting the commercial vehicle size and weight debate, or successfully lobbying to repeal the 4.3 cents per gallon diesel fuel deficit reduction tax that was directed to the U.S. Treasury general fund. This money should have been directly funneled to rail infrastructure improvement projects, not returned to railroad balance sheets.

The railroad industry should be challenged to find a mechanism that does meet its approval, because doing nothing is not a viable option. The Meridian Speedway project mentioned earlier demonstrates that railroads can make necessary and innovative investments. There is a demonstrable need for similar initiatives.

UPS strongly believes that this is an issue critical to an array of constituencies beyond the railroads themselves and major users such as UPS, the nation's farmers, retailers, the mining industry and chemicals manufacturers. Every major container seaport in North America handled

record volumes in 2005. Those containers moved out of those ports on the highways and rails. The highways and rails go through cities and towns all across the country, fueling the economy but also raising safety concerns.

UPS realizes that we are in this dilemma together. Developing a world class freight rail network is a national issue crying out for a national solution. What we need now is national leadership and a collaborative approach to solving this issue. The lead time required for major rail projects is too great for any further delay, and the storm clouds of dramatically increased freight flows across all modes are rapidly approaching.

With our vast experience in operating multimodal transportation networks, our knowledge, and our resources, we are prepared to assist the Congress and our rail service partners in this quest. We also ask our colleagues from the rail industry, from the shipper community and other rail stakeholders to join us. Let us make this a primary national transportation priority, starting today.